

## PERSI contribution rates increase July 1, 2004

- When funding was high in the late 1990s, PERSI lowered rates and provided Gain Sharing, but low investment returns in Fiscal Years 2000–2003 mean rates must increase now
- Investment returns are improving in FY 2004, but scheduled rate increases are still necessary to meet funding requirements
- Member rates will increase by 0.37% of pay on July 1, 2004

After one of the longest and worst bear markets in history (2000–2003), the investment markets appear to have turned a corner.

PERSI ended 2003 with assets of \$7.519 billion, a calendar year 2003 return of 25.5%, which is PERSI's best-ever calendar year return, and an investment return of 18.7% as of February 29, 2004.

This is definitely good news, but even with such recent performance, PERSI's funding is still lagging due to the previous several years. As of our latest actuarial valuation (based on June 30, 2003 data), PERSI was 83.5% funded. Because of this, we must go ahead with the first of the scheduled contribution rate increases we communicated to you last year. Employer and member contributions will increase beginning July 1, 2004 according to the chart on page 3.

Should future fiscal year investment returns be significantly better than assumed, it may be possible to decrease or defer the rate increases. Conversely, if future returns do not meet assumptions, rates may have to be increased further.

If the rate increases continue as scheduled, by July 2006, they will have returned to 1997 rates. At that time, PERSI was able to lower contributions due to the phenomenal investment returns of the mid-1990s.

### How is PERSI's Funding Level Determined?

By state law, each year PERSI's Actuarial Consultant performs an actuarial valuation based on PERSI's fiscal year-end figures. The valuation is a statistical projection of promised benefits to be paid, and an analysis of PERSI's ability to meet those benefit

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## A message from the Chairman about the need to raise rates



Jody B. Olson  
Chairman,  
Retirement Board

*When PERSI's funding was at an all-time high a few years ago, your Retirement Board decided to "share the wealth" with you by reducing contribution rates and granting \$155 million to members, retirees and employers as Gain Sharing.*

*Now that our funding status is lower, we hope that you understand the need to raise rates at this time. We realize that employees have ever greater healthcare and insurance costs and raises have been low or nonexistent for many. To ease the impact of our rate increase on members and employers, we delayed the increase for two years, and phased it in over three years. When fully phased in by 2006, rates will be back to 1997 levels.*

*Your Trustees are committed to maintaining contributions as low as possible, yet adequate enough to ensure a secure retirement system.*

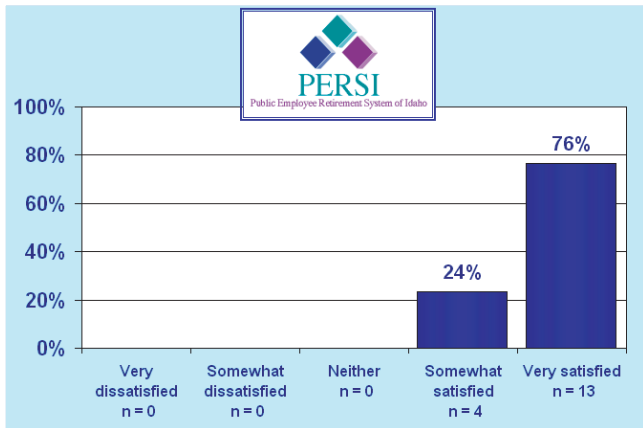
# Members show high satisfaction with PERSI customer service

In the fall of 2003, PERSI began surveying members who had completed transactions with PERSI.

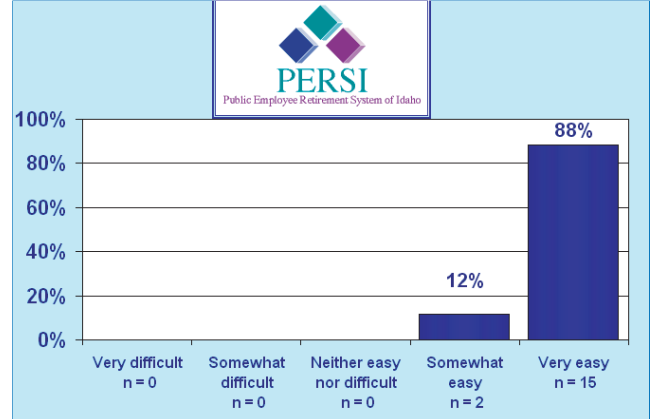
Overall, the results were extremely positive. Most members who had direct contact with PERSI were very satisfied with our customer service and materials. Generally, over 80-90% of responses were somewhat satisfied to very satisfied with

most being very satisfied. In most cases, those that were somewhat to very dissatisfied were less than 3%.

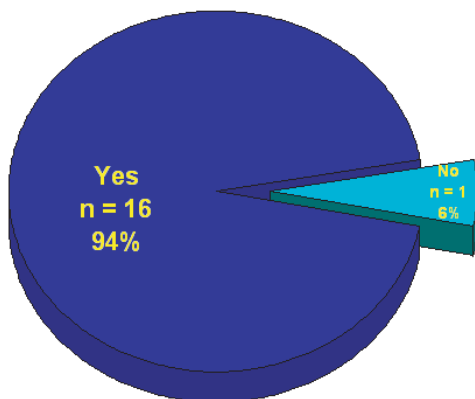
Each survey had between 26-34 questions, so we can only summarize some highlights here. Full survey results from all of our member and employer surveys are available on our Website at [www.persi.state.id.us/html/Surveys/suveys.htm](http://www.persi.state.id.us/html/Surveys/suveys.htm).



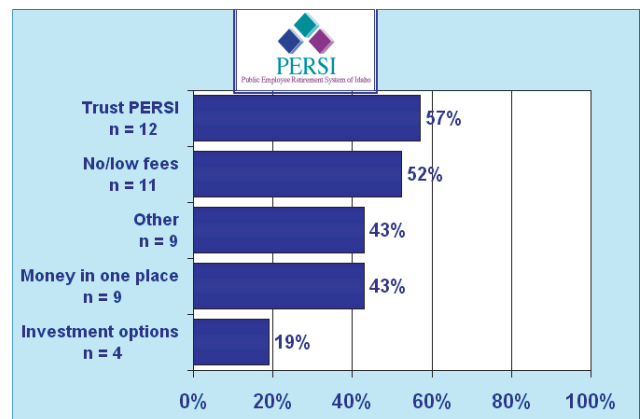
100% of members who had taken a Choice Plan 401(k) loan said that they were very (76%) or somewhat (24%) satisfied with PERSI overall.



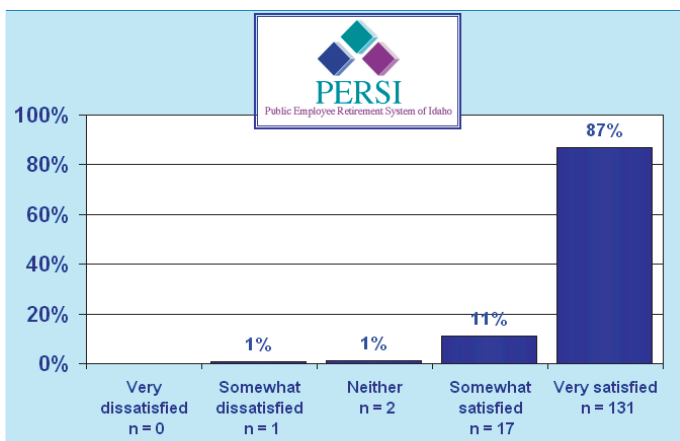
88% of those taking a Choice Plan 401(k) loan said it was very easy to submit the application, while 17% said it was somewhat easy.



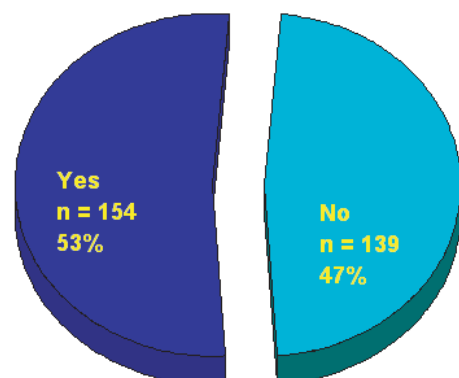
94% of those who took a loan intend to contribute to the Choice Plan 401(k) again.



People who rolled their money into the Choice Plan 401(k) did so because 57% trust PERSI, 52% like the no/low fees, 43% want their money in one place.



87% of those receiving retirement counseling were very satisfied and 11% were somewhat satisfied.



53% of new retirees plan on working in retirement, 47% do not plan on working in retirement.

# PERSI rates increase continued from page 1

payments. It is a point-in-time snapshot of PERSI's funding health and is used to determine contribution levels and Gain Sharing availability.

Through the actuarial valuation, PERSI's funding status is calculated. Factors that enter into this are: investment gains or losses, growth in salaries, and various demographics such as: gain or loss in membership, number and age of retirees, life expectancies of members, years of service, age of entry into PERSI, retiree Cost of Living Adjustments (COLAs), and more.

As of June 30, 2003, PERSI had an Unfunded Actuarial Liability of \$1,248.9 million and was 83.5% funded. (This includes the COLA granted to retirees for the year.) The Amortization Period estimated to pay off this UAL was 19.4 years including the scheduled 2004 and 2005 rate increases. Without the scheduled increases, the pay off of the Amortization Period would be over 40 years. State law requires this pay-off period to be 25 years or less.

The Funding Ratio is determined by dividing Actuarial

Assets by the Actuarial Liabilities.

For FY2003: Actuarial Assets of \$6,297.8 million divided by Actuarial Liabilities of \$7,546.7 million equals a Funding Ratio of 83.5%.

PERSI's funding status is good and continues to improve. The funding level reacts to market and demographic changes. In 2000, PERSI's funding ratio was 116%. This was when we initiated Gain Sharing for employers, retirees and members.

## Funding Level and Contribution Rates

Idaho Code states that if PERSI's amortization period exceeds 25 years, PERSI must increase contribution rates to bring the amortization period within 25 years. In July 1, 2002, the UAL did exceed 25 years, and the Board raised contribution rates. But to ease the impact on members and employers, the Board delayed the increase for two years and phased the increase over three years.

One of PERSI's primary goals is to maintain stable contribution rates at levels required to fund benefits.

## Scheduled PERSI Contribution Rate Changes

	Until 10-31-97	11-1-97 to 6-30-03	July 1 2003	July 1 2004	July 1 2005*	July 1 2006*
<b>MEMBERS</b>						
General Member Employee	6.97%	5.86%	5.86%	6.23%	6.60%	6.97%
Police/PERSI Firefighter Employee	8.53	7.21	7.21	7.65	8.09	8.53
<b>EMPLOYERS</b>						
General Member Employer	11.61	9.77	9.77	10.39	11.00	11.61
Police/PERSI Firefighter (Class 2) Employer	11.85	10.01	10.11	10.73	11.34	11.95
FRF Firefighters (Class D) Hired after 10/1/80 Employer	27.25	27.25	27.35	27.97	28.58	29.19
FRF Firefighters (Class A, B) Hired before 10/1/80 Employer	35.90	35.90	36.00	36.62	37.23	37.84

**Member Rate:** This is the percent of your pay that you contribute into your PERSI retirement account each pay period.

**Employer Rate:** This is the rate your employer pays on your behalf each pay period.

\* 2005 and 2006 rates may change depending on actuarial and investment gains and losses.

# Military duty and PERSI benefits

If your PERSI employment is interrupted by military service, you retain your PERSI Base and Choice Plan 401(k) benefits. You may even earn PERSI "Military Service" credit for your period of active duty. You and your employer do not have to pay contributions for you to receive credit for military service. You may earn PERSI credit for the period while on active duty if:

- you begin service within 90 days of leaving PERSI-covered employment, and
- you return to PERSI employment within 90 days of release from active duty.

You must provide proof of service (usually a copy of your military orders).

## Credit earned if receiving salary

Although entitled to military service credit at no charge, your employer may wish to continue to pay full or partial salary while you are on active duty.

*Full-time salary:* If your employer pays wages equal to more than 15 days per month or 20 hours per week, both member and employer contributions are required, and you will receive regular PERSI service credit.

*Part-time salary:* If your employer pays wages equivalent to less than 15 days per month or 20 hours per week, contributions are not required on the salary, and you will be eligible for military service credit.

## Choice Plan 401(k) loan repayments

If you took a loan from the PERSI Choice Plan 401(k) and are repaying the loan, your repayments may be suspended during any period of qualified military service. Once you return from active duty, payments will resume.

## Making up missed Choice Plan 401(k) contributions

You may make up voluntary pre-tax contributions to the 401(k) missed while on qualified military service if you return to work upon release from active duty.

## Death Benefits if Killed in Action

### PERSI Base Plan

*Non-Vested Members:* Beneficiaries of members with less than 60 months of PERSI service (including military service) will receive a lump sum death benefit consisting of your Base Plan contributions plus interest.

*Vested Members:* Beneficiaries of members with 60+ months of PERSI service (including military service) have two options:

- Your beneficiary may receive two times your Base Plan contributions plus interest, or
- Your beneficiary may waive their right to the death benefit to instead have a monthly allowance paid to your surviving spouse for his or her lifetime. If your spouse is your beneficiary, he or she may also elect the monthly allowance.

### PERSI Choice Plan 401(k)

Months of service are not considered for Choice Plan death benefits. If your beneficiary is your spouse, he or she may select from a variety of payment options including monthly installments or a lump sum payment. If your beneficiary is not your spouse, he or she will receive a lump sum payment of your 401(k) account balance.

## Disability Benefits if Injured in Action

### PERSI Base Plan

Disabilities resulting from military service are excluded from a PERSI Base Plan disability retirement benefit.

### PERSI Choice Plan 401(k)

The PERSI Choice Plan does not have disability benefits. However, you may be able to withdraw your 401(k) funds without early withdrawal penalties.

## PERSI credit cancelled if Base Plan funds are withdrawn

If you are called to duty, terminate your employment and withdraw your PERSI Base Plan funds, you cannot receive the military service credit. Withdrawing your funds negates your PERSI status prior to the military service. You may, however, regain your military service credit by repaying the entire amount upon returning to work.

## Class of PERSI service

Military service is awarded at the employee class under which you were working when called into the military. If you were a general member when entering the military, but return to employment as a police member, your military service will be awarded as a general member.

## More Information

More detailed information on military service is available on PERSI's Webstie: [www.persi.state.id.us](http://www.persi.state.id.us).



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